

What's behind shared service centres?

Do you have the courage to perform management accounting in your shared service centre?

Most finance directors and finance professionals recognise that a shared service centre is a document factory, a transaction processing plant. It takes raw materials of invoices, receipts, etc. and processes them through an agreed and established procedure.

Not all agree the SSC should go a step further and produce the management accounts – but without that next step management accounting remains a cottage industry. And in the 21st century it needs to match the scale and sophistication of the whole organisation.

An SSC should be responsible for all the mechanical, routine and predictable activities of the finance function – right up to the production of the first draft of the monthly financial statements. These activities are generally susceptible to clear rules that can be adhered to and will prevent the SSC seeking clarification from other parts of the business on a frequent basis.

Raw materials

In a traditional management accounting process 'raw' management accounts are constructed from data held within the general ledger, which is based on transactions from the accounts payable, accounts receivable, expenses and other sub-ledgers/data sources.

From the general ledger a set of management accounts are produced, usually on a monthly basis. The standard management accounts package includes profit and loss account, balance sheet, and variance analyses. While the raw financial statements can more efficiently be dealt with by an SSC, the variance analyses need to be completed by financial (or business) analysts working closely with the business managers.

An SSC provides advantages by ensuring all processes are performed by a set of rules which ensures there is a consistency in method and a quality in output. All the staff in the finance function are adequately qualified, trained and supervised. To ensure maximum efficiency staff (either within the SSC or elsewhere) should only perform tasks suitable to their qualification and experience. Highly qualified staff performing more routine functions offer poor value for money, while staff working on tasks for which they are not appropriately qualified create risk of error.

In this model, only the SSC is able to actually input transactions into the general ledger. It is possible for certain personnel to have access to the information held by the SSC under agreed protocols, but that access is 'read only', they are not able to post or alter transactions – including journals.

Any transfer of routine work to an SSC should see an improvement in effectiveness, efficiency and quality. By drawing the management accounting function together in one

place issues such as best practice, benchmarking, systems upgrades and change initiatives should be much easier to handle and to incorporate.

In a management accounting system where centres are diffuse and responsibility is shared such processes have to be performed as many times as there are finance teams.

A successful implementation of an SSC results in an improvement in the consistency and quality of the financial information produced. The output of an SSC will be measured against agreed and known key performance indicators. At present draft management accounts may have considerable and fluctuating variance from the version in many companies. Under a properly constituted SSC the difference between draft and final should be known, consistent and measurable.

One of the key advantages is that it caters for the company's growth whether organic or through acquisition in a cost-effective way. So any acquisition, new product or service line can be serviced with only a marginal increase in resources.

It's not all upside. Any change management initiative has its risk and interfering with a core operation such as the production of monthly management accounts needs proper planning to ensure minimum disruption.

Introducing an SSC represents a cultural change. It is a more formal structure and this has to be recognised. Many organisations have a 'do it now' approach because the staff are on hand. An SSC reduces that flexibility but also its cost.

It also has implications for human resources. Jobs and tasks are relocated. An SSC breaks up empires, senior people lose teams and the status which goes with them.

It is important that the cost reduction is not lost through the emergence of a new layer of bureaucracy, 'shadow' teams in the original location which are deemed necessary to cope with the SSC or repeat some of the work now transferred. This is overcome by clear lines of communication and an explicit understanding of where roles and responsibility lie.

IT strategy experts assert that any technology interface works best when the least amount of data has to cross. This logic works equally well when applied to the interface between an SSC and other parts of the organisation. The two sides of the interface represent a natural separation of duties. So it would require both parties to introduce or overlook mistakes or inaccuracies in order for the error to remain. The key part of the interface element is that it should represent a natural check on the work and data that flows between the two without introducing a specific checking process.

A set of draft management accounts sent from the SSC to the divisional financial analysts contains far less data than the full transaction listings required to build those management accounts.

As accountants we have been trained to see the raw basis of accounts, the carefully produced transaction listing, accruals and prepayments, the spreadsheets and the journal postings as the stuff of our professional work.

But technology has commoditised and de-skilled the processing of that data into usable financial information. Big systems, if carefully set up, have the capability of producing high quality (first draft) financial statements.

The more that clerks can capture data accurately at the beginning of the process then the more accurate the end result will be. But this disenfranchises highly skilled, highly qualified accountants chasing around the building and re-formatting the accounts once they have been produced. As moving this work to an SSC – where much of the work will not be conducted by qualified accountants – it undermines the essence of much of the professional work accountants are used to performing, then courage is required.

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